



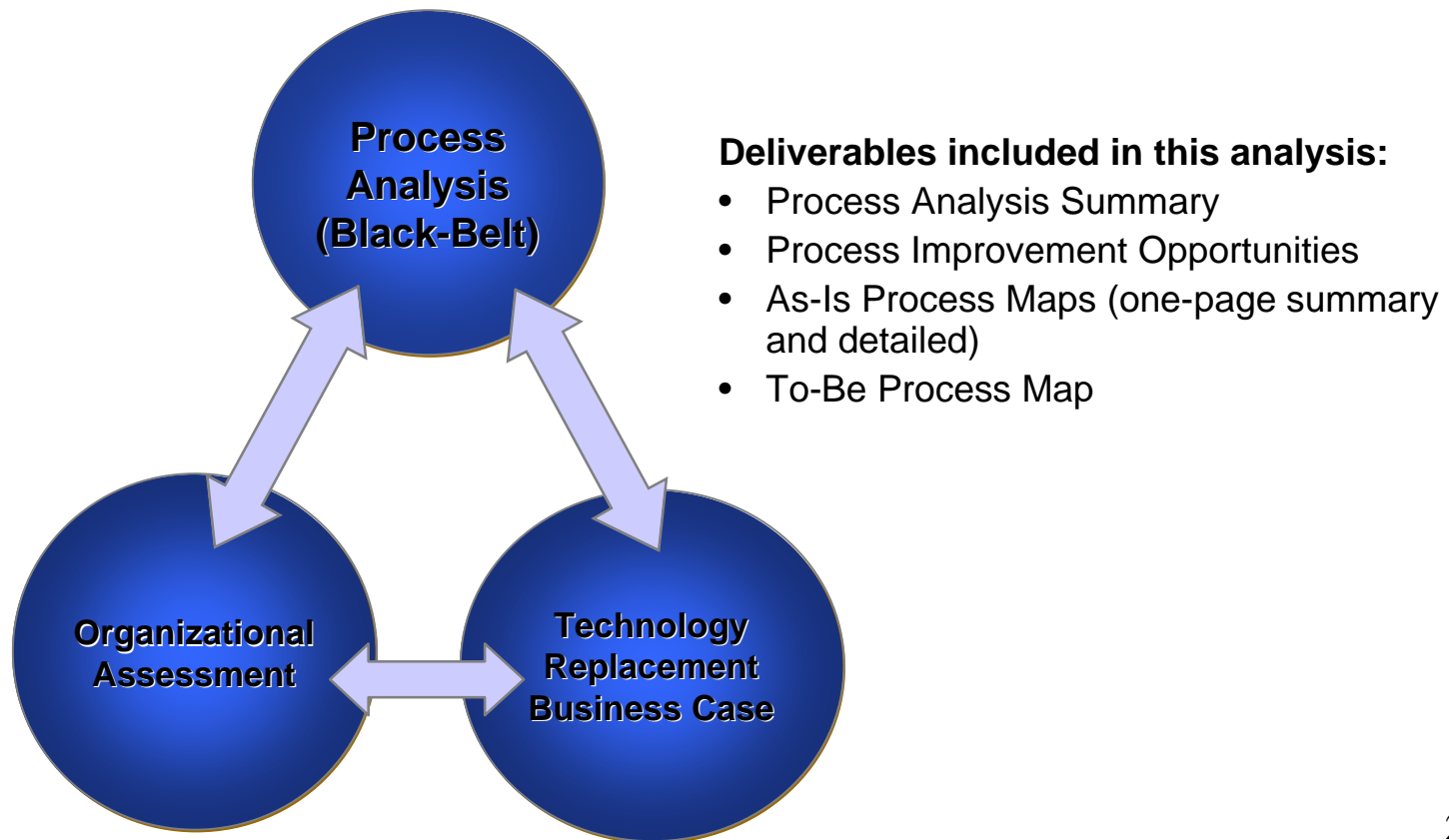
Process Analysis Summary: Debt Collections

Students Leadership Discussion
August 2001

64.1.1-Debt Collections Management Assessment

Context of Analysis

Process Analysis (Black-Belt) complements other on-going projects at the SFA Modernization Program. This analysis focuses on improving the internal processes which add value to the end customer.



Expectations of Analysis

Objective: This three-week analysis is meant to provide an understanding of the current Debt Collections process area as well as identify a number of improvement opportunities which provide the greatest potential cost impact. These improvement opportunities should be used to set priorities for future, more detailed analysis which can result in implementation of expected savings.

In scope for this analysis:

- Creation of Current State (As-Is) process maps showing a defaulted loan (or program overpayment) from arrival until satisfied
- Creation of Future State (To-Be) process maps showing process improvement opportunities
- Collection of readily available data
- Estimations of annual savings for each savings opportunity (where possible)

Out of scope for this analysis:

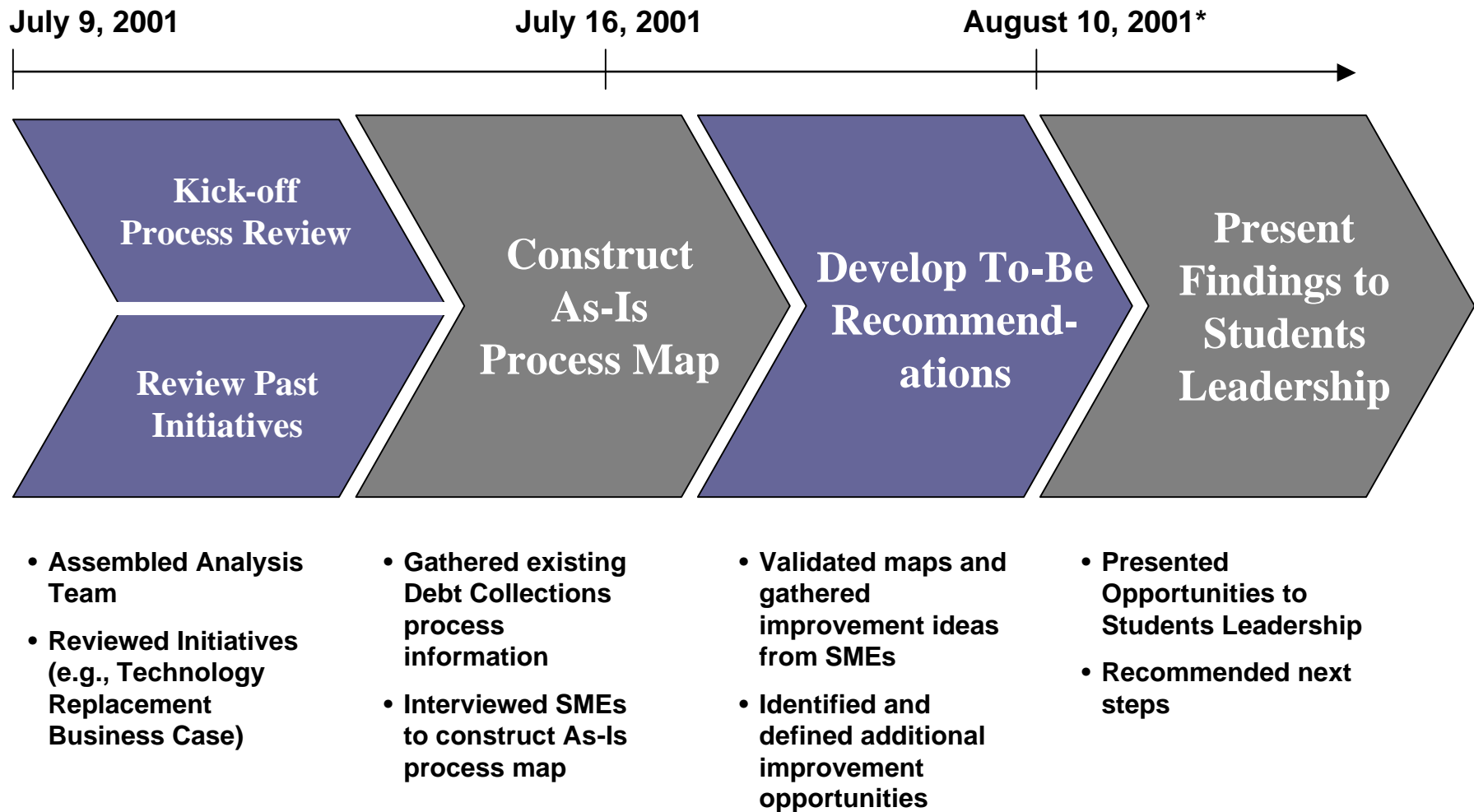
- Extensive data collection efforts
- Dept of Justice Litigation process
- PCA Collections process
- Accounting process
- NPC, SLPC and VDC processes

Acknowledgements

The Process Analysis Team greatly appreciates the time and efforts of the following Subject Matter Experts (SMEs) whose inputs were invaluable to the success of this project:

- | | |
|---------------------|----------------|
| – Sybil Phillips | – Gary Hopkins |
| – Robert Laurence | – Ron Robinson |
| – Adele Gabrielle | – Mike Bryant |
| – Shirley Wheeler | – Walter Reed |
| – Adara Walton | – Steve Martus |
| – Sandra McCullough | – Joe Weber |

Chronology of Events



* No work was done between July 23 and August 5, 2001 (Team analyzed Institutional Eligibility processes).

FY'00 Defaulted Loan Portfolio

Arrivals by Type

- GA Defaulted FFEL Loans
- Defaulted Federal Direct Loans
- Program Overpayments (Grants)

\$1.7B*



Debt Collections

\$1.3B

Collection Results by Type

- TOP (\$431M)
- Consolidation (\$387M)
- Repayments (\$294M)
- AWG (\$110M)
- Litigation (\$26M)
- Rehabilitation (\$13M)
- FDP (\$4M)

Collections Portfolio: \$12.1B*

* Principle and Interest

Improvement Information Provided

Fifteen improvement opportunities have been grouped in two themes:

1. Reduced Operating Costs
2. Increased Collections Effectiveness

Each improvement opportunity shown here:

- Describes the nature of the change required to obtain the savings
- Provides a high level indication of the cost driver impact
- Identifies the relative difficulty of implementation
- Establishes an initial estimate of the annual operational savings or collections potential, once implemented

Due to the integrated nature of the analysis, it is expected that overlaps in savings estimates must be de-conflicted.

The contents has been reviewed but the details require significant additional verification and coordination with SFA. They represent an initial pass at potential areas for cost savings, increased customer service and employee satisfaction.

Improvement Opportunities

1. Reduced Operating Costs

Number	Savings Opportunity	Description	Cost Driver Impact	Difficulty of Implementation	Best Initiative Alignment	Indicative Annual Savings
1.1	Reduce Consolidation Commissions	Consolidation does not necessarily develop good borrower payment patterns; reduce PCA consolidation commissions.	- Reduced Treasury costs	LOW	Debt Management II	Treasury Savings: \$5,000,000
1.2	Proactively Reduce Volume of Hearings**	Proactively reduce number of reviews by analyzing the borrower status before attempting AWG, TOP, and FDP; use the same analysis techniques employed during the review.	- Reduced operational costs - Increased employee and customer satisfaction	LOW	Consistent Answers	Operational: \$140,000
1.3	Eliminate Redundant Reviews**	Eliminate additional SFA reviews which have already been done by contractors or agencies; instead, randomly sample reviews to ensure compliance.	- Reduced operational costs - Increased employee satisfaction	LOW	Consistent Answers	Operational: \$500,000

* Difficulty of Implementation:

- Low: involves contract modification, advertisement for increased awareness, etc.
- Medium: requires technology implementation, etc.
- High: needs political/ regulatory intervention, major organizational/ process re-engineering, etc.

** New recommendation developed during additional week of analysis August 6-10

Improvement Opportunities

1. Reduced Operating Costs

Number	Savings Opportunity	Description	Cost Driver Impact	Difficulty of Implementation	Best Initiative Alignment	Indicative Annual Savings
1.4	Centralize and Automate Data Exchange	Place trading partner data into an internet-centric mailbox (e.g., partner.net, bTrade, etc.); Eliminate manual tape processes; validate new data before acceptance to system; accept scanned images of promissory notes.	<ul style="list-style-type: none"> - Reduced operational costs - Reduced contractor FTEs - Increased productivity - Increased employee satisfaction 	MEDIUM	DMCS Replacement	Operational: \$160,000
1.5	Recover Data Matching Costs	SFA should consider recovering its operating costs thru collection of fees or renegotiated agreements for data matching services (i.e., other federal agencies, Guarantee Agencies, borrowers, etc.).	<ul style="list-style-type: none"> - Reduced operational costs 	MEDIUM	Debt Management II	Operational: \$120,000

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Improvement Opportunities

1. Reduced Operating Costs

Number	Savings Opportunity	Description	Cost Driver Impact	Difficulty of Implementation	Best Initiative Alignment	Indicative Annual Savings
1.6	Reduce Letters Sent to Borrowers	SFA is only required to send one due-process notice. Eliminate second letter (N07) sent to borrower.	- Reduced Operational Cost - Reduced cycle times.	MEDIUM	eServicing	Operational: \$80,000
1.7	Reduce Paper-Based Reporting	Reduce reports and publish electronically. Only 200 of 725 paper reports are currently used.	- Reduced contract costs - Reduced operating costs	MEDIUM	eServicing/ DMCS Replacement	TBD
1.8	Combine FDP with TOP Process	Eliminate FDP subsystem within DMCS and utilize Treasury Federal Defaulter Program (FDP) along with Treasury Offset Program.	- Reduced operating costs - Increased productivity	LOW	Debt Management II	Operational: \$600,000

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Improvement Opportunities

2. Increased Collections Effectiveness

Number	Savings Opportunity	Description	Cost Driver Impact	Difficulty of Implementation	Best Initiative Alignment	Indicative Annual Savings
2.1	Implement New Skip Tracing Technologies	Option 1: Implement New Technologies at SFA to increase probability of finding paying borrowers. Option 2: Encourage PCAs to Implement New Technologies to locate borrowers more quickly.	- Increase collections	LOW	eServicing	Collections: \$12,500,000
2.2	Increase Returned Check Fee	Increase amount of returned check fee from \$5 to \$20. A more severe penalty should increase deterrence and reduce operating costs for processing bad checks.	- Decreased operational costs for bad checks - Increased collections	LOW	Consistent Answers	Collections: \$750,000
2.3	Provide Electronic Payment Capabilities	Provide alternative electronic payment channels (i.e., payroll deduction, automatic debits, electronic payment) to reduced payment processing costs; send billing statements electronically if possible	- Reduced operating costs - Increased collections	MEDIUM	eServicing	Operational \$75,000

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Improvement Opportunities

2. Increased Collections Effectiveness

Number	Savings Opportunity	Description	Cost Driver Impact	Difficulty of Implementation	Best Initiative Alignment	Indicative Annual Savings
2.4	Sell or Write-Off Bad Debt	Sell portion of portfolio to reputable third parties in the delinquent-debt market; write-off small balance loans according to criteria for age and amount.	- Reduced operating costs	LOW	Alternative Loan Portfolio Strategies	TBD
2.5	Add New Collections Management Capabilities	Replace current DMCS System with a modern debt management system; enable more intelligent Collection Agencies assignment, automate workflow; enhance compatibility with other systems	- Reduced operating costs - Increased collections - Increased employee satisfaction	HIGH	eServicing/ DMCS Replacement	TBD

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Improvement Opportunities

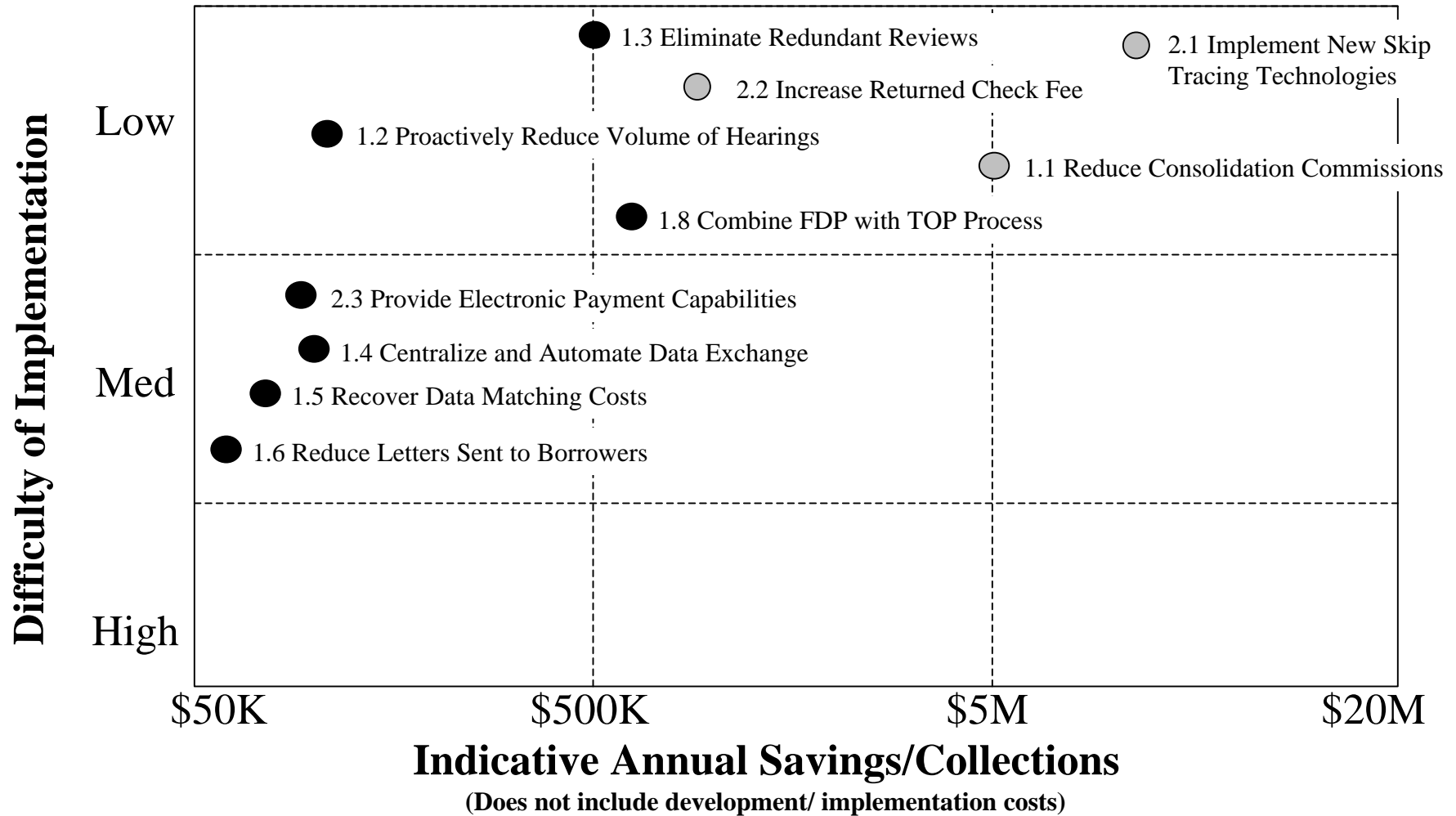
2. Increased Collections Effectiveness

Number	Savings Opportunity	Description	Cost Driver Impact	Difficulty of Implementation	Best Initiative Alignment	Indicative Annual Savings
2.6	Define Organizational Processes	Group interrelated activities together that create value for the customer (e.g., PCA, borrower, etc.); reintegrate tasks, rather than fragment work; move to event-driven activities instead of schedule-driven.	<ul style="list-style-type: none"> - Reduced operating costs - Increase employee, customer satisfaction 	HIGH		TBD
2.7	Formalize Collection Employee Rewards Programs	create a multi-tiered incentive approach to encourage teamwork; incentive program will align with the business strategies, objectives and culture of Collections.	<ul style="list-style-type: none"> - Increased employee, customer satisfaction 	LOW		TBD

* Difficulty of Implementation:

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Evaluating Improvement Opportunities



Savings TBD:

- 1.7 Reduce Paper-Based Reporting
- 2.4 Sell or Write-Off Bad Debt
- 2.5 Add New Collections Management Capabilities
- 2.6 Define Organizational Processes
- 2.7 Formalize Employee Incentive Programs

Key:

- Operational Savings
- Increased Collections/
Treasury Savings

Improvement Themes

		Impact to Cost Drivers			
Improvement Themes	Description	Increase Customer Satisfaction	Increase Employee Satisfaction	Decrease Unit Cost	Weighted Impact *
Reduced Operating Costs	Utilize new systems and policies to improve data exchange between agencies and reduce/recover operating costs	L	M	H	M
Increased Collections Effectiveness	Utilize new technologies to locate borrowers and provide alternative, less expensive means of payment from the borrowers	H	H	M	H

* Real Impact determined by weighing performance goals: Increase Customer Satisfaction (1.0)
Decrease Unit Costs (2.0), Increase Employee Satisfaction (1.0)

Suggested Next Steps

Next steps for Debt Collections:

- Select appropriate savings opportunities for immediate action
 - Refine / verify processes and unit cost estimates through process decomposition
 - Determine cost to do the work vs. achieving the savings
 - If necessary, create dynamic prototype (i.e., simulation) of future state to assess performance and risk before implementation
- Include debt collections reengineering approach in FY02 plans
- Leverage process analysis results to help design organizational changes

Accuracy of Estimates

- Rapid review performed based on available data and subjective approximations from Subject Matter Experts
- Savings are indicative only and should be used for prioritizing goals
- Additional work required to confirm actual savings as additional effort is performed
- Numeric data was sometimes rounded off to simplify calculations